

Message Text

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70

ACTION ARA-20

INFO OCT-01 ADP-00 INT-08 SCEM-02 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03

EA-11 COME-00 OPIC-12 CIAE-00 DODE-00 PM-07 H-03

INR-10 NSAE-00 PA-03 PRS-01 USIA-15 FPC-01 RSR-01

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R 302016Z JUL 73

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 6505

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TAGS: ETRN, EAID, ETRD, PE

SUBJ: FINANCING FOR TRANS-ANDEAN PIPELINE

REF: LIMA 5152, 5200 AND 5293

1. IN VIEW IMMINENCE JULY 30 DEADLINE BY WHICH TIME COFIDE AND PETROPERU WERE TO RESUME NEGOTIATIONS WITH JAPANESE, EMBASSY INFORMED CONFIDE ON JULY 27 THAT IT DID NOT APPEAR THAT EXIM BANK FINANCING FOR ANY PORTION OF PIPELINE PROJECT WAS LIKELY PROSPECT IN NEAR-TERM FUTURE AND THAT IT SHOULD NOT BE VIEWED AS FEASIBLE ALTERNATIVE TO JAPANESE FINANCING WITHIN TIME FRAME NOW ENVISAGED BY GOP. GOP WOULD HAVE TO BASE DECISION ON WHETHER TO PROCEED WITH JAPANESE OR OTHER CONSIDERATIONS.

2. EMBASSY DID TAKE ADVANTAGE OF PRESENCE IN LIMA OF CONTINENTAL OIL BOARD CHAIRMAN MCLEAN (EMBTel 5200) TO ARRANGE MEETING BETWEEN HIS PARTY AND SENIOR COFIDE OFFICIALS. AT OUR SUGGESTION, MCLEAN REVIEWED ECONOMIC AND TECHNICAL CONSIDERATIONS WHICH LED HIM TO CONCLUSION

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THAT CONSTRUCTION OF PIPELINE AT THIS TIME WOULD BE PRE-

MATURE. AMONG FACTORS CITED WERE: (1) LACK OF KNOWLEDGE CONCERNING RESERVES; (2) INSUFFICIENT DATA TO DETERMINE WHAT SIZE LINE TO BUILD; (3) FACT THAT, ONCE RESERVES PROVEN, TIME NEEDED TO DRILL PRODUCING WELLS AND TIME NEEDED TO BUILD PIPELINE WOULD COINCIDE SO THAT NO NEED EXISTED TO GET HEAD START ON PIPELINE; (4) CERTAINTY THAT, ONCE CONTINENTAL (OR ANY OTHER PRODUCER) HAD PROVEN RESERVES, IT ITSELF WOULD BUILD LINE; PIPELINE COST INDEED ALREADY FACTORED INTO CONTINENTAL'S INVESTMENT DECISION; AND (5) FACT THAT, WITH PROVEN RESERVES, PETROPERU AND COFIDE WOULD HAVE MANY OPTIONS WHICH DID NOT NOW EXIST AND COULD STRIKE BETTER BARGAIN.

3. IF EXPLORATIONS WENT WELL, MCLEAN THOUGHT, ENOUGH DATA WOULD BE AVAILABLE TO PERMIT CONSTRUCTION TO BEGIN TOWARD THE END OF 1975 WITH FULL OPERATION BY THE END OF 1977. IN MEANTIME, SALES NEED NOT BE LOST SINCE PRODUCTION, WHICH MIGHT BE RUNNING 40,000 OR 50,000 BARRELS A DAY, COULD BE BARGED DOWN AMAZON. MCCLEAN EMPHASIZED THAT HE DID NOT WISH TO APPEAR TO BE CRITICAL OF PETROPERU OR MINISTRY OF ENERGY AND MINES BUT ONLY WISHED TO OUTLINE FACTORS WHICH OUGHT TO BE TAKEN INTO ACCOUNT IF DECISION WERE TO BE BASED ON PURELY ECONOMIC GROUNDS. IN FACT, CONTINENTAL WOULD BE DELIGHTED IF SOMEONE ELSE WERE TO BUILD A PIPELINE THAT CONTINENTAL COULD THEN USE. HOWEVER, IT APPEARED TO HIM THAT PERU HAD MANY PROJECTS WITH HIGHER PRIORITY TO WHICH AVAILABLE CREDITS OUGHT TO BE DEVOTED.

4. COFIDE OFFICIALS WERE VERY APPRECIATIVE OF MCLEAN'S PRESENTATION. THEY AGREED THAT CONSTRUCTION SEEMED PREMATURE AT THIS POINT AND SEEMED IMPRESSED BY ARGUMENT THAT BETTER TERMS MIGHT BE ARRANGED AT LATER DATE.

5. COMMENT: IT NOW APPEARS THAT PRINCIPAL SOURCE OF PRESSURE FOR STARTING CONSTRUCTION NOW IS MINISTRY OF ENERGY AND MINES. PETROPERU IS BEGINNING TO HAVE SECOND THOUGHTS BUT MAY HAVE GONE SO FAR THAT IT CANNOT EASILY BACK OUT. COFIDE QUITE OBVIOUSLY WISHES POSTPONE DECISION, AND WE HOPE MEETING WITH MCLEAN WILL GIVE THEM LIMITED OFFICIAL USE

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ADDITIONAL AMMUNITION NEEDED TO DO SO. COFIDE POSITION WOULD HAVE BEEN CONSIDERABLY STRENGTHENED IF WE COULD HAVE HELD OUT SOME PROSPECT OF EVENTUAL EXIM PARTICIPATION. IF GOP DECIDES TO PROCEED WITH CONSTRUCTION DESPITE ECONOMIC CONSIDERATIONS CITED ABOVE, OUR INABILITY TO BE MORE RESPONSIVE WILL HAVE BEEN MAJOR FACTOR IN LOSS TO US OF MAJOR COMMERCIAL OPPORTUNITY.
BELCHER

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